

Comments on:

“Crises and Growth”

And

Other Random Papers

We Start With:
Ricardo's Lesson in Marxist Thought:

EU-15 Attitude to NMS:

**“I'd give you my seat, but I'm
sitting in it”**

Chico Marx “A Night at the Opera”

Ranciere, Tornell & Westermann

Paper Has Two Parts:

- 1) Empirical Results Showing + Link Between Crises (Skewness of Credit Growth) and GDP Growth Rate
- 2) A Model Showing Conditions When Such a Link **MAY** Arise

Order Seems Reversed, Usually Model Comes First

Start With The Model

94 Equations

I Have Carefully Checked All of Them -
There is One Dropped Subscript but I Don't
Remember Where.

If You Believe This, I Will Be Selling Tsarist
Bonds at Coffee Break

Clearly the Model Does What It Sets Out To
Do – Establish that Such a Link Could Exist

The Authors Claim Several Times that This
Was Not a Model of Schumpeterian
Creative Destruction.

But It Is Not Clear If There Is ANY Way to
Discriminate in The Empirical Work

Suggestions for Enriching Model

- Hedging is Poorly Modeled. Why Can't Firms Issue Enforceable T-type Debt and Hedge with Currency Futures?
- All Bailouts are Domestic. Costs of Currency Crises are Typically Exported to Foreign Creditors and Should Be Reflected in Interest Rates

Key Question

Where Do Crises Come From?

In the model they are close to sunspot phenomena “Shifts in Expectations Causing Sharp Depreciation”

Surely the Probability of Such Shifts is Policy Driven

Thought Experiment

Link Byelorussian Ruble to Kruna:

Now, with a stable currency and sound monetary policy, the probability of exchange rate depreciation would be minimal.

Serious Policy ?

Can the Paper Tell Us Anything About
Desirability of Joining EMU?

Clearly this would “eliminate” possibility of
exchange rate crisis and divergence between
domestic and foreign denominated debt.

Would there be a growth penalty in the
context of the model?

Simulation Exercise

- Also seems underdeveloped
- Some parameters chosen from literature, balance chosen to validate model
- Would be better as a calibration exercise where parameters not available from the literature were chosen to reproduce actual experiences
- Sensitivity analysis needs to be more formally structured

Empirical Results

This Seems the More Valuable Part of the Paper but It Is Underdeveloped.

Some Estimation Issues:

- 1) Wrong RHS Variable –
Markets Will React to Probability of
Crisis, not Stochastic Realizations
⇒ Measurement Error
- 2) Endogeneity –
Surely in data $pr(Crisis) = f(Growth)$

3) Growth Measure is Not Well Defined

Uses WDI Data

This Data Has Been Adjusted to Create Cross-Section Comparability (often with funny exchange rates)

Use of Own Country (IFS) Growth Rates Often Changes Results. May be a special problem in crisis situations

We Close With: The Infamous “Polish Plumber”

